

**REPORT OF THE AUDIT OF THE
FORMER LESLIE COUNTY
SHERIFF**

**For The Period Ended January 1, 2002
Through January 5, 2003**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER LESLIE COUNTY SHERIFF

**For The Period January 1, 2002
Through January 5, 2003**

The Auditor of Public Accounts has completed the former Leslie County Sheriff's audit for the period January 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$19,463 from the prior calendar year, resulting in excess fees of \$3,715 as of January 5, 2003. Revenues decreased by \$8,623 from the prior year and disbursements increased by \$10,840.

Report Comments:

- The Former Sheriff Should Have Prepared and Published An Annual Settlement
- The Former Sheriff Should Have Prepared A Schedule Of Expenditures Of Federal Awards
- The Former Sheriff Should Pay Excess Fees Of \$3,715 As Determined By Audit
- The Former Sheriff's Official Bond Should Have Been Recorded In The County Clerk's Office
- Lacks Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Kenneth Witt, Leslie County Judge/Executive

Honorable James F. Davidson, Former Leslie County Sheriff

Honorable John C. Morgan, Leslie County Sheriff

Members of the Leslie County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former County Sheriff of Leslie County, Kentucky, for the period January 1, 2002 through January 5, 2003. This financial statement is the responsibility of the former County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former County Sheriff for the period January 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Kenneth Witt, County Judge/Executive
Honorable James F. Davidson, Former Leslie County Sheriff
Honorable John C. Morgan, Leslie County Sheriff
Members of the Leslie County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 19, 2003, on our consideration of the former County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Former Sheriff Should Have Prepared and Published An Annual Settlement
- The Former Sheriff Should Have Prepared A Schedule Of Expenditures Of Federal Awards
- The Former Sheriff Should Pay Excess Fees Of \$3,715 As Determined By Audit
- The Former Sheriff's Official Bond Should Have Been Recorded In The County Clerk's Office
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 19, 2003

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Period January 1, 2002 Through January 5, 2003

Receipts

Federal Grants		\$	57,989
State Grants			5,325
State Fees For Services:			
Finance and Administration Cabinet	\$	5,291	
Cabinet For Human Resources		<u>1,755</u>	7,046
Circuit Court Clerk:			
Sheriff Security Service	\$	3,885	
Fines and Fees Collected		1,133	
Court Ordered Payments		<u>2,747</u>	7,765
Fiscal Court			22,812
County Clerk - Delinquent Taxes			4,589
Commission On Taxes Collected			108,008
Fees Collected For Services:			
Auto Inspections	\$	245	
Accident and Police Reports		30	
Serving Papers		10,702	
Carrying Concealed Deadly Weapon Permits		<u>3,375</u>	14,352
Other:			
Lake Patrol	\$	10,576	
Insurance Receipts		17,416	
Forfeiture Receipts		11,758	
Advertising Costs		1,220	
Add On Fees		16,814	
Miscellaneous		<u>3,437</u>	61,221
Interest Earned			1,270
Borrowed Money:			
State Advancement			<u>50,000</u>
Total Receipts		\$	340,377

The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
 JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Period January 1, 2002 Through January 5, 2003
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries		\$	148,401
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Employee Benefits-

Employer's Share Social Security	\$	2,656	
Employer's Share Retirement		3,709	
Worker's Compensation		3,536	
Employer Paid Health Insurance		<u>2,961</u>	12,862

Contracted Services-

Vehicle Maintenance and Repairs			7,311
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Materials and Supplies-

Office Materials and Supplies	\$	10,824	
Uniforms		<u>6,962</u>	17,786

Other Charges-

Conventions and Travel	\$	190	
Dues		50	
Advertising Costs		1,220	
Carrying Concealed Deadly Weapon Permits		2,370	
Training		<u>181</u>	4,011

Capital Outlay-

Office Equipment	\$	1,498	
Vehicles		20,997	
Vehicle Lease Payments		<u>6,383</u>	28,878

Debt Service:

State Advancement			<u>50,000</u>
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Total Disbursements		\$	<u>269,249</u>
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Net Receipts		\$	71,128
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Less: Training Incentive	\$	(5,154)	
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Less: Statutory Maximum		<u>(62,259)</u>	<u>(67,413)</u>
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Excess Fees Due County as of January 5, 2003		\$	<u><u>3,715</u></u>
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The accompanying notes are an integral part of the financial statement.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at January 5, 2003.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year.

LESLIE COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The former Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,968 of public funds uninsured and unsecured.

COMMENTS AND RECOMMENDATIONS

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2002 Through January 5, 2003

STATE LAWS AND REGULATIONS:

1. The Former Sheriff Should Have Prepared and Published An Annual Settlement

The former Sheriff did not prepare an annual settlement of receipts, disbursements and excess fees and publish it within sixty (60) days after the close of the calendar year as required by KRS 424.220(6). In addition, the former Sheriff did not present an annual settlement to the fiscal court for approval. We did find that the former Sheriff submitted his quarterly financial statement to the fiscal court for approval. However, the quarterly financial statement and the annual settlement are two separate reports required under state law and the Uniform System of Accounts. We recommend that the Sheriff's office prepare an annual settlement, publish an annual settlement within sixty (60) days after the close of the calendar year, and present an annual settlement to the fiscal court for approval.

Former Sheriff Davidson's Response:

I was not aware of this. However, I had all of the information to do this.

2. The Former Sheriff Should Have Prepared A Schedule of Expenditures of Federal Awards

The former Sheriff did not prepare a schedule of expenditures of federal awards. It is the responsibility of the Sheriff's office to identify the total dollar amount of federal expenditures and to obtain a single audit if federal expenditures exceed \$300,000 during the year. Because of this, it is very important that the Sheriff's office maintain a running total of federal grant expenditures and to maintain detailed grant records. The former Sheriff should have prepared a separate file for each grant. Within each file, the former Sheriff should have maintained a breakdown of federal share, state share, and local share of grant expenditures. This information would then be used to compile the schedule of expenditures of federal awards at the end of the year. We strongly recommend that the Sheriff's office implement these procedures immediately to ensure that their schedule of expenditures of federal awards is accurate.

Former Sheriff Davidson's Response:

I was not aware that a special report was required. However, we had all of the information to prepare the report.

3. The Former Sheriff Should Pay Excess Fees of \$3,715 As Determined By Audit

The former Sheriff owes \$3,715 in excess fees for calendar year 2002. We have presented our audited "Statement of Receipts, Disbursements and Excess Fees" in our audit report, which states that excess fees of \$3,715 are due for calendar year 2002. We recommend that the former Sheriff pay excess fees of \$3,715 due the fiscal court as soon as possible.

Former Sheriff Davidson's Response:

I will settle this at the June 2003 fiscal court meeting.

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2002 Through January 5, 2003
(Continued)

4. The Former Sheriff's Official Bond Should Have Been Recorded In The County Clerk's Office

The former Sheriff's qualifying performance bond was not recorded in the County Clerk's order book for the January 1, 2002 through January 1, 2003 time period. KRS 70.020 states the following:

(1) The Sheriff shall execute a bond for the faithful performance of the duties of his office. This bond shall be in addition to the bond required of him by KRS 134.230 and shall be a minimum of ten thousand dollars (\$10,000) with sureties approved by the fiscal court. It shall be taken by the County Clerk under the supervision of the County Judge/Executive and witnesses by the Clerk or his deputy. The fact that the bond was taken, together with the names of the sureties, shall be entered on the order book, and the bond shall be recorded in a book kept for that purpose. The County Judge/Executive shall require the Sheriff to renew this bond annually, and more often if it deems proper.

We recommend the Sheriff's office take appropriate action to ensure the bond is recorded in the County Clerk's office.

Former Sheriff Davidson's Response:

I was not aware that it was not recorded. I knew we had the bond.

INTERNAL CONTROL - MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically, and on a surprise basis, compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Sheriff should also compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Sheriff could document this by initialing the quarterly financial report.
- The Sheriff should periodically, and on a surprise basis, compare invoices to payments. The Sheriff could document this by initialing the invoices.
- The Sheriff should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Former Sheriff Davidson's Response:

I did these procedures but did not document in written format.

LESLIE COUNTY
JAMES F. DAVIDSON, FORMER COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2002 Through January 5, 2003
(Continued)

PRIOR YEAR:

- The Former Sheriff Should Have Prepared and Published An Annual Financial Statement
- The Former Sheriff Should Have Prepared A Schedule of Expenditures of Federal Awards
- Lacks Adequate Segregation Of Duties

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the former Leslie County Sheriff for the period January 1, 2002 through January 5, 2003, and have issued our report thereon dated June 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Leslie County Sheriff's financial statement for the period January 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former Sheriff Should Have Prepared and Published An Annual Settlement
- The Former Sheriff Should Have Prepared A Schedule Of Expenditures Of Federal Awards
- The Former Sheriff Should Pay Excess Fees Of \$3,715 As Determined By Audit
- The Former Sheriff's Official Bond Should Have Been Recorded In The County Clerk's Office



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Leslie County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 19, 2003

